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May 8, 2007

VIA E-MAIL to Barbara Saddler at: saddlerb@stb.dot.gov

Hon. Vernon A. Williams,
Secretary
Surface Transportation Board
1925 K St., N.W. (7th Floor)
Washington, D.C. 20423-0001

RECORDATION NO. 26951 FILED

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SURFACE TRANSPORTATION BOARD

Dear Secretary Williams:

Pursuant to 49 U.S.C. 11301, today we submitted for recordation electronically through the Surface Transportation Board's e-file system the following document:

Instrument: Security Agreement, dated May 3, 2007

Document: Primary

Secured Party: A. J. McMurry Co.
c/o John C. Nixon
5800 Stanford Ranch Road, Suite 710
Rocklin, California 95765

Debtor: Yreka Western Railroad Company
300 East Miner Street
Yreka, California 96097

Equipment: Great Northern Business Car A-18

Payment: \$35.00 pursuant to an account that is in the process of being established.

Kindly return a file stamped copy of the security instrument or this letter to my office to verify filing. Thank you very much.

Very truly yours,

Lisa L. Nixon, Attorney at Law

By: Lisa L. Nixon
Lisa L. Nixon, Esq.

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SECURITY AGREEMENT

SURFACE TRANSPORTATION BOARD

This Security Agreement (this "Agreement") is entered into as of May 3, 2007, between Yreka Western Railroad Company, a California corporation ("Grantor"), and A. J. McMurry Co., a California general partnership ("Secured Party"), (each a "Party" and collectively, the "Parties").

RECITAL

Grantor owns and operates a railroad business in Yreka, California, for which Grantor desires to obtain operating and acquisition capital. Secured Party has agreed to make a loan to Grantor, pursuant to that certain Secured Promissory Note, of even date herewith, for such purposes. Grantor is granting this security interest in order to induce Secured Party to make such loan to Borrower.

NOW, THEREFORE, in consideration of the foregoing and for other valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Parties agree as follows:

AGREEMENT

1. **Security.** For value received, Grantor hereby assigns and grants to Secured Party a security interest in that certain railroad car known as the Great Northern Business Car A-18, together with all rights to, or proceeds of, insurance policies covering such railroad car, and the proceeds, substitutions, replacements, additions, and accessions of and to such railroad car in any form (the "Collateral"). The foregoing shall not imply, nor shall it be construed as, a power of sale by Grantor, or as a consent by Secured Party to the sale of such railroad car.

2. **Indebtedness.** The Collateral secures and will secure:

(a) All debts, obligations or liabilities now or hereafter existing, absolute or contingent, matured or unmatured, to Secured Party under that certain Secured Promissory Note, of even date herewith, made by Grantor in favor of Secured Party in the principal amount of \$53,800.00, including any amendments or extensions thereof (the "Note") and that certain Consulting Agreement, of even date herewith, between Grantor and Secured Party, including any amendments or extensions thereof (the "Consulting Agreement"); and

(b) All expenditures by Secured Party for taxes, insurance and repairs to and maintenance of the Collateral incurred by Secured Party, and all costs and expenses (including attorneys' fees and collection costs) incurred by Secured Party in the collection and enforcement of the Note or the Consulting Agreement.

3. **Representations, Warranties and Covenants.** Grantor hereby represents, warrants and agrees as follows:

(a) **Title.** Except for the security interest granted by this Agreement, Grantor has full title to the Collateral free from any lien, security interest, encumbrance, or claim.

Grantor, at Grantor's sole cost and expense, will defend any action that may affect Secured Party's security interest in, or Grantor's title to, the Collateral.

(b) Financing Statement. No financing statement or other security instrument covering the Collateral or any part of it or any proceeds of it is on file or recorded in any public office, including the Department of Transportation's Surface Transportation Board, except as shall be filed in favor of Secured Party. Grantor shall execute two (2) original copies of this Agreement in the presence of a notary public and deliver both originals to Secured Party, and shall execute such other agreements, documents, instruments, or financing statements in connection with this Agreement as Secured Party may reasonably deem necessary. To the extent permitted by applicable law, a carbon, photographic or other reproduction of this Agreement or any financing statement covering the Collateral shall be sufficient as a financing statement. Grantor hereby irrevocably constitutes and appoints Secured Party as Grantor's attorney-in-fact to sign any financing statement or other document which must be executed, filed or recorded to perfect or continue perfected, maintain the priority of, or provide notice of Secured Party's security interest in the Collateral and file and record any such financing statements and other documents by electronic means with or without a signature as authorized or required by applicable law or filing procedures.

(c) Sale, Lease, or Disposition of Collateral. Grantor will not sell, contract to sell, lease, encumber, or dispose of the Collateral or any interest in it without the written consent of Secured Party until this Agreement and all debts secured by it have been satisfied.

(d) Insurance. Until final termination of this Agreement, Grantor, at Grantor's own cost and expense, will insure the Collateral with companies acceptable to Secured Party against the casualties and in the amounts that Secured Party will reasonably require, with a loss payable clause in favor of Grantor and Secured Party as their interests may appear. Secured Party is authorized to collect sums that may become due under any of the insurance policies and apply them to the obligations secured by this Agreement. Grantor shall deliver a duplicate copy of each such policy to Secured Party.

(e) Protection of Collateral. Grantor will keep the Collateral in good condition and repair and will not waste or destroy the Collateral or any part of it. Grantor will not use the Collateral in violation of any statute or ordinance and Secured Party will have the right to examine and inspect the Collateral, wherever located, at any reasonable time after giving reasonable notice to Grantor.

(f) Taxes and Assessments. Grantor will pay promptly when due all taxes, levies, assessments, and other governmental charges imposed on Grantor or the Collateral, or any part of the Collateral, or for its use and operation.

(g) Reimbursement of Expenses. At the option of Secured Party, Secured Party may discharge taxes, liens, and interest, or perform or cause to be performed for and on behalf of Grantor any actions, conditions, obligations, or covenants that Grantor has failed or refused to perform, in relation to the Collateral. In addition, Secured Party may pay for the repair, maintenance and preservation of the Collateral. Secured Party may also enter the premises where the Collateral or any part of it is located and cause to be performed as agent and

on the account of Grantor any acts that Secured Party deems necessary for the proper repair and maintenance of the Collateral or any part of it. All sums expended by Secured Party under this paragraph, including but not limited to, attorneys' fees, court costs, agent's fees, or commissions, or any other costs or expenses, will bear interest from the date of payment at the annual rate of ten percent (10%), and will be secured by this Agreement.

(h) Change of Address. Grantor will promptly notify Secured Party of any change of Grantor's chief place of business, or place where records concerning the Collateral are kept.

4. Payment. On full payment by Grantor of Grantor's total indebtedness to Secured Party secured by this Agreement (the "Indebtedness"), this Agreement will expire, and Secured Party's security interest in the Collateral, as set forth in this Agreement, will terminate.

5. Time of Performance. In performing any act under this Agreement, and the Note and Consulting Agreement secured by it, time is of the essence. Secured Party's acceptance of partial or delinquent payments, or the failure of Secured Party to exercise any right or remedy, will not constitute a waiver of any obligation of Grantor or right of Secured Party and will not constitute a waiver of any other similar default that occurs later.

6. Default. Grantor shall be in default hereunder if any of the following occur:

(a) Grantor is in default under the Note, the Consulting Agreement, or any agreement relating to the Indebtedness.

(b) Any representation or warranty made or deemed made by Grantor to Secured Party in this Agreement or any other related documents is false, misleading or erroneous in any material respect on the date when made or deemed to have been made.

7. Remedies. In the event of any default by Grantor under this Agreement, Secured Party may do any one or more of the following:

(a) Declare any Indebtedness immediately due and payable, without notice or demand.

(b) Enforce the security interest given hereunder pursuant to the Uniform Commercial Code and any other applicable law.

(c) Require Grantor to assemble the Collateral and make it available to Secured Party at any place to be designated by Secured Party. Expenses of retaking, holding, preparing for sale, selling, or the like will include Secured Party's reasonable attorneys' fees and legal expenses and shall be included in the Indebtedness hereunder.

8. Miscellaneous.

(a) This Agreement shall be governed by and construed according to the laws of the State of California. Any legal action or proceeding filed to interpret and/or enforce any

provision of this Agreement shall be filed in a court of competent jurisdiction within Siskiyou County, California.

(b) Grantor shall promptly and duly execute and deliver to Secured Party such further documents and assurances and take such further action as Secured Party may from time to time reasonably request, including, without limitation, any amendments to this Agreement to establish and protect the rights, interests, and remedies created or intended to be created in favor of Secured Party.

(c) All rights and remedies herein provided are cumulative and not exclusive of any rights or remedies otherwise provided by law. Any single or partial exercise of any right or remedy shall not preclude the further exercise thereof or the exercise of any other right or remedy.

(d) All terms not defined herein are used as set forth in the Uniform Commercial Code.

(e) In the event of any action by Secured Party to enforce this Agreement or to protect the security interest of Secured Party in the Collateral, Grantor agrees to pay immediately the costs and expenses thereof, together with reasonable attorneys' fees and costs.

(f) Secured Party's rights hereunder shall inure to the benefit of its successors and assigns. In the event of any assignment or transfer by Secured Party of any of the Indebtedness or the Collateral, Secured Party thereafter shall be fully discharged from any responsibility with respect to the Collateral so assigned or transferred, but Secured Party shall retain all rights and powers hereby given with respect to any of the Indebtedness or the Collateral not so assigned or transferred. All representations, warranties and agreements of Grantor hereunder shall be binding upon the representatives, successors and assigns of Grantor.

(g) Any notice required or permitted to be given under this Agreement shall be written, and may be given by personal delivery, by facsimile transmission or by registered or certified mail, first-class postage prepaid, return receipt requested, at the addresses of Grantor and Secured Party set forth below. Notice shall be deemed given upon actual receipt in the case of personal delivery, three (3) business days after mailing if sent by certified mail, or upon machine confirmation of transmission if sent by facsimile. Grantor and Secured Party may change their addresses by written notice in accordance with this paragraph:

If to Secured Party: A. J. McMurry Co.
c/o John C. Nixon
5800 Stanford Ranch Road, Suite 710
Rocklin, California 95765
Facsimile: (916) 663-6566

If to Grantor: Court R. Hammond, President
Yreka Western Railroad Company
300 East Miner Street

Yreka, California 96097
Facsimile: (530) 842-4148

(h) The paragraph headings in this Agreement are used only for convenience in finding the subject matters and are not part of this Agreement or to be used in determining the intent of the parties or otherwise interpreting this Agreement.

SECURED PARTY:

A. J. McMurry Co., a California general partnership

By: [Signature]
Name: John C. Nixon
Its: Authorized Representative

GRANTOR'S SIGNATURE MUST BE NOTARIZED

GRANTOR:

Yreka Western Railroad Company, a California corporation

By: [Signature]
Name: Court R. Hammond
Its: President

STATE OF CALIFORNIA
COUNTY OF Placer

On this 03 day of May, 2007, before me,
Elmira Feather a Notary Public in and for the State of
California, personally appeared Courter R. Hammond personally known to me (or proved
on the basis of satisfactory evidence) to be the person(s) whose name(s) is/are subscribed to the
within instrument and acknowledged to me that he/she/they executed the same in his/her/their
authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or
the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal

Signature Elmira Feather

My commission expires Jan 11, 2011

